

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

**AUDIT REPORT
OF**

**DECATUR COUNTY MEMORIAL HOSPITAL
A COMPONENT UNIT OF
DECATUR COUNTY, INDIANA**

January 1, 2011 to December 31, 2011



FILED
05/30/2012

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HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
President/Chief Financial Officer/Treasurer	William Alloy Linda V. Simmons	01-01-11 to 04-01-11 04-02-11 to 02-28-13
Vice President of Finance	Michael R. Ruckel	03-01-10 to 02-28-13
Chairman of the Hospital Board	Toni Collins	03-01-10 to 02-28-13
President of the Board of County Commissioners	John Richards Rick J. Nobbe	01-01-11 to 12-31-11 01-01-12 to 12-31-12



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AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE DECATUR COUNTY MEMORIAL
HOSPITAL, DECATUR COUNTY, INDIANA

We have audited the accompanying financial statements of the Decatur County Memorial Hospital (Hospital) as of and for the year ended December 31, 2011, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of December 31, 2011, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining statements, listed in the Table of Contents, are presented for purposes of additional analysis and are not required parts of the financial statements of the Hospital. This information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

April 23, 2012

DECATUR COUNTY MEMORIAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS

Decatur County Memorial Hospital (Hospital) located in Greensburg, Indiana was established in 1922. The Hospital is committed to improving the health of the people who live in the community. The values, standards of excellence and vision provide the framework for directing the actions of the Hospital.

This section of the Hospital's annual financial statements presents background information and management's discussion and analysis (MD&A) of the Hospital's financial performance during the fiscal year ended December 31, 2011. This MD&A should be read together with the financial statements included in this report.

OPERATING RESULTS AND FINANCIAL PERFORMANCE

During 2011, the Hospital derived most of its revenue from patient services and other related activities. Approximately 81% of the Hospital's patient revenue is dependent upon outpatient procedures as ordered by physicians. The Hospital has entered into agreements with third-party payers, including governmental programs, under which payments for healthcare services provided to patients are based upon discounts from gross charges and predetermined rates relating to a patient's diagnosis. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the gross charges for services and the actual or anticipated payment.

The Hospital derives a significant portion of its revenues caring for patients covered under government health programs, principally Medicare and Medicaid. In 2011, inpatient revenues derived from the Medicare and Medicaid programs were 64.6% of total inpatient revenues compared to 59.9% in 2010. Outpatient revenues derived from both programs were 50.1% in 2011 compared to 48.4% in 2010.

The table below presents the percentages of gross revenues for patient services, by payer, for the years ended December 31, 2011 and 2010, respectively:

	<u>2011</u>	<u>2010</u>
Medicare	39.4%	38.2%
Medicaid	13.6%	12.6%
Blue Cross	18.5%	20.6%
Other	20.3%	20.9%
Self Pay	8.2%	7.7%

FINANCIAL ANALYSIS

The Hospital's Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets along with the Statement of Cash Flows report the information

about the Hospital's activities. A comparative summary of the Hospital's Balance Sheet as of December 31, 2011 and December 31, 2010 is presented below:

Assets:	<u>2011</u>	<u>2010</u>
Cash and equivalents	\$ 13,976,507	\$ 14,078,333
Long term investments	\$ 0	\$ 0
Other designated cash and equiv	\$ 4,434,079	\$ 5,146,226
Accounts Receivable	\$ 6,984,705	\$ 6,058,561
Other Current Assets	\$ 1,698,553	\$ 1,079,619
Net property and equipment	\$ 24,824,852	\$ 24,863,615
Other assets	\$ 141,941	\$ 159,278
Liabilities and Fund Balance:		
Current and other liabilities	\$ 3,855,584	\$ 4,612,687
Long-term obligations	\$ 2,928,890	\$ 3,603,376
Net assets	\$ 45,276,163	\$ 43,169,569

CAPITAL ASSETS

During 2011, the Hospital made the following significant capital acquisitions and improvements:

- Renovated existing space at the Medical Arts Building to expand our Occupational Health department, at a cost of \$197,000.
- Purchased and replaced two hematology analyzers at a cost of \$98,000.
- Purchased and began implementation of new software for Home Health, at a cost of \$118,000.
- Completed conversion to a new Radiology Information System/ Picture Archiving System, with additional costs of \$325,000 during 2011.
- Repaired the existing brick on the Hospital facility at a cost of \$98,000.
- Purchased and replaced telemetry monitors for our Med-Surg and ACU units at a cost of \$124,000.
- Purchased a new electronic health record system for our clinics at a cost of \$170,000.
- Purchased an electronic storage system for EKGs at a cost of \$92,000.

A summary of the Hospital's capital assets as of December 31, 2011 and 2010 is presented below:

	<u>As of 12/31/11</u>	<u>As of 12/31/10</u>
Land	\$ 905,928	\$ 905,928
Land Improvements	375,980	353,413
Buildings	26,544,569	26,099,607
Equipment	17,761,339	17,207,043
Construction in progress	<u>994,191</u>	<u>459,200</u>

Total capital assets	46,582,007	45,025,191
Less accumulated depreciation	<u>21,757,155</u>	<u>20,161,576</u>
Net capital assets	<u>\$ 24,824,852</u>	<u>\$ 24,863,615</u>

For additional information relating to capital assets of the hospital, please see the Notes to the Financial Statements.

LONG-TERM DEBT

The hospital has the following long-term debt at December 31, 2011:

<u>Description</u>	<u>Purpose</u>	
2011 Lease Refunding Bonds	Hospital Construction	\$ 2,107,500
2011 Revenue Refunding Bonds	Hospital Construction	\$ 920,000
Capital Leases	Various Equipment	\$ 74,468

During 2011, the Hospital defeased the 2002 Refunding Bond issue, which had previously defeased a Revenue Bond issue from 1994. The original 1994 issue was for the purpose of adding approximately 36,000 sq ft of new space for the hospital. This included new surgery suites, new emergency room, new radiology and diagnostic areas, new patient registration area, new physical therapy area, as well as a renovated lab area. The hospital funds on a monthly basis to a third-party trustee, the amount necessary for principal and interest due to the bondholders, in accordance with the bond ordinance. This bond issued is scheduled to be retired in 2015.

Also during 2011, the Hospital defeased the 2002 Revenue Bond issue, which were issued for the purpose of funding additional construction to the existing hospital facility. Construction was completed in 2005 on the 30,000 sq ft addition, which included a new women's center, a new emergency room, new clinical areas, new conference areas, as well as renovation of existing hospital spaces. The hospital funds on a monthly basis to a third-party trustee, the amount necessary for principal and interest due the bondholders, in accordance with the bond ordinance. This bond issue is scheduled to be retired in 2019.

As a result of the above defeased bonds, the hospital incurred an unrealized loss on refunding in the amount of \$154,458.

The Hospital entered in to capital leases for the acquisition of new multifunction copy/print machines in 2010 and 2011. These leases are scheduled to be paid off by 2016.

For additional information on long-term debt of the hospital, please see the Notes to the Financial Statements.

FINANCIAL SUMMARY

A comparative summary of the Statement of Revenues, Expenses and Changes in Net Assets for the years ended December 31, 2011 and December 31, 2010 is presented below:

	<u>2011</u>	<u>2010</u>
Revenues:		
Net patient service revenue	\$ 42,028,541	\$ 39,891,467
Other	<u>1,230,584</u>	<u>835,322</u>
Total Revenues	<u>43,259,125</u>	<u>40,726,789</u>
Operating Expenses:		
Salaries and benefits	26,309,486	24,995,898
Supplies	5,080,852	5,385,380
Other	7,891,997	7,363,565
Depreciation	<u>2,404,038</u>	<u>2,439,602</u>
Total Operating Expenses	<u>41,686,373</u>	<u>40,184,445</u>
Operating income	1,572,752	542,344
Nonoperating income (net)	<u>500,084</u>	<u>474,140</u>
Excess of revenues over expenses	2,072,836	1,016,484
Net assets, beginning of year	43,169,569	42,097,077
Capital grants and contributions	<u>33,758</u>	<u>56,008</u>
Net assets, end of year	<u>\$ 45,276,163</u>	<u>\$ 43,169,569</u>

Notes on Hospital's Statement of Revenues and Expenses:

- The Hospital's contractual adjustments for the year ended December 31, 2011 were 42.5% of gross patient revenue compared to 41.9% in 2010.

FUTURE OUTLOOK AND 2012 BUSINESS PLAN

Management believes the hospital industry will continue to be under significant pressure to continue to control costs and maintain reasonable rates while providing higher quality services. One of the Hospital's main challenges as a small rural hospital is to compete in the surrounding market for qualified and caring personnel. The Hospital must continue to look at opportunities for increasing staff efficiency and productivity while maintaining staff and enhancing patient care.

The hospital will continue to strive to reduce costs, and to increase the quality of patient services, with the ultimate goal to be able to continue to fund the hospital's mission.

The Hospital continues to plan for a major addition to the existing Hospital campus. This project will include a two story addition to the existing facility, with one floor utilized to replace our existing Med-Surg and Advanced Care units. The other floor would be unfinished "shelled" space at this time. Total proposed additional square footage is 29,000 square feet, with an estimated cost of \$8 million.

There is also potential for a second phase to this project, which would add a two story medical office building to the existing Hospital. This would require demolition of a portion of the existing facility. This would add a total of approximately 21,000 square feet, and include moving and renovation of certain departments within the Hospital. Total estimated cost of this proposed second phase is approximately \$5.5 million.

As always, Decatur County Memorial Hospital continuously strives to provide quality patient care. Plans and decisions made for the hospital in 2012 will always be made in the best interests of the patient.

DECATUR COUNTY MEMORIAL HOSPITAL
STATEMENT OF NET ASSETS
December 31, 2011

Assets

Current assets:		
Cash and cash equivalents	\$	6,186,395
Short-term investments		7,790,112
Patient accounts receivable, net of estimated uncollectibles of \$6,527,857		6,984,705
Supplies and other current assets		1,698,553
Noncurrent cash and investments:		
Internally designated for capital improvements		3,552,014
Held by Trustee for debt service		730,909
Restricted by bond agreements, contributors and grantors		151,156
Capital assets:		
Capital assets not being depreciated		1,900,119
Depreciable capital assets, net of accumulated depreciation		22,924,733
Other assets		<u>141,941</u>
Total assets	\$	<u>52,060,637</u>

Liabilities and Net Assets

Current liabilities:		
Current maturities of long-term debt	\$	328,620
Accounts payable and accrued expenses		2,924,443
Estimated third-party settlements		590,106
Other current liabilities		12,415
Long-term debt, net of current maturities		<u>2,928,890</u>
Total liabilities		<u>6,784,474</u>
Net assets:		
Invested in capital assets, net of related debt		21,692,386
Restricted:		
For debt service		730,909
Expendable for capital acquisitions		58,449
Expendable for specific operating activities		92,707
Unrestricted		<u>22,701,712</u>
Total net assets		<u>45,276,163</u>
Total liabilities and net assets	\$	<u>52,060,637</u>

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY MEMORIAL HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2011

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 42,028,541
Other	<u>1,230,584</u>
Total operating revenues	<u>43,259,125</u>
Operating expenses:	
Salaries and wages	26,309,486
Medical supplies and drugs	3,979,033
Insurance	324,415
Other supplies	1,101,819
Depreciation and amortization	2,404,038
Other expenses	<u>7,567,582</u>
Total operating expenses	<u>41,686,373</u>
Operating income	<u>1,572,752</u>
Nonoperating revenues (expenses):	
Investment income	290,452
Investment expense	(178,354)
Noncapital grants and contributions	261,377
Other	<u>126,609</u>
Total nonoperating revenues (expenses)	<u>500,084</u>
Excess of revenues over expenses	
before capital grants and contributions	2,072,836
Capital grants and contributions	<u>33,758</u>
Increase in net assets	2,106,594
Net assets beginning of the year	<u>43,169,569</u>
Net assets end of the year	<u>\$ 45,276,163</u>

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY MEMORIAL HOSPITAL
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2011

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 41,102,397
Payments to suppliers and contractors	(13,979,062)
Payments to employees	(26,309,486)
Other receipts and payments, net	<u>1,289,040</u>
Net cash provided by operating activities	<u>2,102,889</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions	127,607
Other	<u>263,023</u>
Net cash provided by noncapital financing activities	<u>390,630</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(2,365,277)
Capital grants and contributions	33,513
Principal paid on long-term debt	(1,085,329)
Interest paid on long-term debt	<u>(178,354)</u>
Net cash used by capital and related financing activities	<u>(3,595,447)</u>
Cash flows from investing activities:	
Interest and dividends on investments	287,955
Purchase of investments	<u>735,722</u>
Net cash provided by investing activities	<u>1,023,677</u>
Net increase in cash and cash equivalents	(78,251)
Cash and cash equivalents at beginning of year	<u>10,698,725</u>
Cash and cash equivalents at end of year	<u>\$ 10,620,474</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 6,186,395
Restricted cash and cash equivalents	<u>4,434,079</u>
Total cash and cash equivalents	<u>\$ 10,620,474</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating gain	\$ 1,572,752
Adjustments to reconcile operating loss to net cash flows provided in operating activities:	
Depreciation	2,404,038
Provision for bad debts	6,009,093
Increase in current assets:	
Patient accounts receivable	(6,935,237)
Supplies and other current assets	(630,053)
Other assets	28,456
Decrease in current liabilities:	
Accounts payable and accrued expenses	(300,718)
Other current liabilities	(75,442)
Estimated third-party payor settlements	<u>30,000</u>
Net cash provided in operating activities	<u>\$ 2,102,889</u>

The Hospital held investments at December 31, 2011, with a fair value of \$7,790,112. During 2011, the net increase in the fair value of these investments was \$292,168.

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Decatur County Memorial Hospital (Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Decatur County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Decatur County.

On December 27, 1993, the Board of County Commissioners of Decatur County, upon written request of the Hospital Board of Trustees created the Decatur County Memorial Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component units. The component units discussed below are included in the Hospital's reporting entity because of the significance of their operational or financial relationships with the Hospital. Blended component units, although legally separate entities, are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government.

Blended Component Units

The Decatur County Memorial Hospital Foundation is a significant blended component unit of the Hospital. It would be misleading to exclude the Foundation from the Hospital's financial statements because of its relationship with the Hospital. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

Separate audit reports are not prepared for the individual component units.

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Hospital has elected to apply subsequent private-sector guidance.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of 3 months or less.

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Short-term investments are investments with remaining maturities of up to 90 days.

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury, and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investments in affiliated companies are reported using the equity method of accounting, or at cost, as applicable.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as non-operating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets.

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 500	Straight-line	5 to 25 years
Buildings and improvements	500	Straight-line	5 to 40 years
Fixed equipment	500	Straight-line	5 to 25 years
Major moveable equipment	500	Straight-line	3 to 25 years
Vehicles	500	Straight-line	4 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest expense was capitalized by the Hospital during the audit period.

4. Net Assets

Net assets of the Hospital are classified in three components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, contributors, or enabling legislation external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. The financial statements report \$882,065 of restricted net assets, of which none are restricted by enabling legislation.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

D. Grants and Contributions

From time to time, the Hospital receives grants from Decatur County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

E. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, state law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds.

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

G. Operating Revenues and Expenses

The Hospital's Statement of Revenues, Expenses, and Changes in Net Assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Non-exchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

H. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

I. Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the agency does not expect payment, estimated charges for charity are not included in revenue.

J. Supplies

Inventories of drugs and other supplies are stated at the lower of cost (first-in, first-out) or market.

K. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid days off, to a maximum of 30 days.

Paid days off are accrued when incurred and reported as a liability.

L. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Cash and Cash Equivalents

The carrying amount reported in the Statement of Net Assets for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the Statement of Net Assets is the investment's fair value on the day it becomes a short-term investment.

Investments

Fair values, which are the amounts reported in the Statement of Net Assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the Statement of Net Assets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the Statement of Net Assets for estimated third-party payor settlements approximates its fair value.

Long-Term Debt

Fair values of the Hospital's revenue notes are based on current traded value. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-16 allows a Hospital Governing Board to deposit public funds in a financial institution. The Hospital does not have a deposit policy for custodial credit risk. At December 31, 2011, the Hospital had deposit balances in the amount of \$6,186,395. Bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2011, the Hospital and the Hospital Foundation had the following investments:

Investment Type	Primary Government Market Value
U.S. agencies	\$ 1,164,377
Government sponsored enterprises	1,104,658
Mutual funds	5,028,785
Collateralized mortgage obligations	<u>149,895</u>
Total	<u>\$ 7,447,715</u>

Investment Type	Hospital Foundation Market Value
Mutual funds	<u>\$ 342,397</u>

Statutory Authorization for Investments

Indiana Code 16-22-3-20 authorizes the Hospital to invest in:

Any interest-bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

Repurchase or resale agreements involving the purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest-bearing obligations as determined by the current market value computed on the day the agreement is effective.

Mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

Securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Hospital does not have a formal investment policy for custodial credit risk for investments.

The Hospital Foundation has not adopted an investment policy for custodial credit risk for investments.

The following investments held by the Hospital and the Hospital Foundation were exposed to custodial credit risks because they are uninsured and unregistered with securities held by the counterparty, or the counterparty's trust department or agent, either in or not in the Hospital or Foundation's name:

Investment Type	In the Hospital's Name	Not in the Hospital's Name
U.S. agencies	\$ 1,164,377	\$ -
Government sponsored enterprises	1,104,658	-
Mutual funds	-	5,028,785
Collateralized mortgage obligations	149,895	-
Totals	<u>\$ 2,418,930</u>	<u>\$ 5,028,785</u>

Investment Type	In the Hospital Foundation's Name	Not in the Hospital Foundation's Name
Mutual funds	<u>\$ -</u>	<u>\$ 342,397</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy for interest rate risk for investments.

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

The Hospital Foundation has not adopted a formal investment policy for interest rate risk.

Investment Type	Investment Maturities (in Years)
	Less Than 1
U.S. agencies	\$ 1,164,377
Government sponsored enterprises	1,104,658
Mutual funds	5,028,785
Collateralized mortgage obligations	149,895
Total	<u>\$ 7,447,715</u>

Investment Type	Investment Maturities (in Years)
	Less Than 1
Mutual funds	<u>\$ 342,397</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below. The Hospital does not have a formal investment policy for credit risk for investments.

The Hospital Foundation has not adopted a policy for credit risk.

Standard and Poor's Rating	Hospital's Investments			
	Mutual Funds	Collateralized Mortgage Obligations	U.S. Agencies	Government Sponsored Enterprise
BB	\$ -	\$ 37,735	\$ -	\$ -
CCC	-	112,160	-	-
Unrated	<u>5,028,785</u>	<u>-</u>	<u>1,164,377</u>	<u>1,104,658</u>
Totals	<u>\$ 5,028,785</u>	<u>\$ 149,895</u>	<u>\$ 1,164,377</u>	<u>\$ 1,104,658</u>

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Hospital Foundation's Investments
Standard and Poor's Rating	Mutual Funds
Unrated	\$ 342,397
Total	\$ 342,397

B. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

Patient Accounts Receivable	
Receivable from patients and their insurance carriers	\$ 9,834,911
Receivable from Medicare	2,401,277
Receivable from Medicaid	1,276,374
Total patient accounts receivable	13,512,562
Less allowance for uncollectible amounts	6,527,857
Patient accounts receivable, net	\$ 6,984,705
Accounts Payable and Accrued Expenses	
Payable to employees (including payroll taxes)	\$ 1,597,236
Payable to suppliers and others	1,327,207
Total accounts payable and accrued expenses	\$ 2,924,443

C. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 905,928	\$ -	\$ -	\$ 905,928
Construction in progress	459,200	1,379,445	844,454	994,191
Total capital assets, not being depreciated	1,365,128	1,379,445	844,454	1,900,119

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Land improvements	353,413	22,567	-	375,980
Buildings	26,099,607	447,709	2,747	26,544,569
Fixed equipment	2,343,912	387,466	331,105	2,400,273
Major moveable equipment	14,829,067	1,082,294	601,529	15,309,832
Vehicles	34,064	17,170	-	51,234
Totals	43,660,063	1,957,207	935,381	44,681,889
Less accumulated depreciation for:				
Land improvements	251,824	22,469	-	274,293
Buildings	8,022,366	779,194	25	8,801,535
Fixed equipment	1,586,871	107,653	315,404	1,379,121
Major moveable equipment	10,266,450	1,459,070	459,526	11,265,994
Vehicles	34,065	2,146	-	36,211
Totals	20,161,576	2,370,533	774,954	21,757,155
Total capital assets, being depreciated, net	23,498,487	4,327,740	1,710,335	22,924,733
Total primary government capital assets, net	<u>\$ 24,863,615</u>	<u>\$ 5,707,185</u>	<u>\$ 2,554,790</u>	<u>\$ 24,824,852</u>

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31, 2011	Committed
Allscripts HHC Computer System	\$ 73,712	\$ 254,537
Radiology RIS/PACS	594,485	1,068,965
Storm Damage	178,557	234,000
New Building Project	5,532	348,000
OB Fetal Monitor	12,071	15,088
Meaningful Use Phase 2	129,834	300,000
Totals	<u>\$ 994,191</u>	<u>\$ 2,220,590</u>

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Leases

Capital Leases

The Hospital has entered into various capital leases for copy machines. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2011, are as follows:

2012	\$ 22,359
2013	23,022
2014	23,022
2015	14,220
2016	<u>522</u>
Total minimum lease payments	83,145
Less amount representing interest	<u>8,677</u>
Present value of net minimum lease payments	<u><u>\$ 74,468</u></u>

Assets acquired through capital leases still in effect are as follows:

Machinery and equipment	\$ 99,166
Accumulated depreciation	<u>(28,973)</u>
Total	<u><u>\$ 70,193</u></u>

F. Short-Term Liabilities

The Hospital uses a revolving line of credit and short-term loans/notes to finance a variety of public projects, including renovation of space for a new MRI machine.

Short-term debt activity for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Issued/ Draws</u>	<u>Redeemed Repayments</u>	<u>Ending Balance</u>
Line of credit, loans, notes	<u><u>\$ 82,445</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 82,445</u></u>	<u><u>\$ -</u></u>

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

G. Long-Term Liabilities

1. Revenue Bonds

The Hospital issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
2011 Revenue refunding issue	2.0% to 4.0%	\$ 1,080,000
2011 Lease revenue refunding issue	2.0% to 4.0%	<u>2,257,500</u>
Total		<u>\$ 3,337,500</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Principal	Interest
2012	\$ 310,000	\$ 53,802
2013	617,500	85,988
2014	605,000	67,937
2015	625,000	49,738
2016	322,500	31,562
2017 - 2019	<u>857,500</u>	<u>38,694</u>
Totals	<u>\$ 3,337,500</u>	<u>\$ 327,721</u>

2. Advance Refunding

In prior years, the Hospital defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Hospital's financial statements. The following outstanding bonds, at December 31, 2011, were considered defeased:

	Amount
Hospital	<u>\$ 4,562,500</u>

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

Primary Government	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
2002 Refunding revenue bonds	\$ 1,560,000	\$ -	\$ 1,560,000	\$ -	\$ -
2002 Revenue bonds - building addition	2,605,000	-	2,605,000	-	-
Hospital foundation	-	3,337,500	-	3,337,500	310,000
Less deferred amount on refunding	(85,292)	(69,166)	-	(154,458)	-
Total bonds payable	4,079,708	3,268,334	4,165,000	3,183,042	310,000
Capital leases	180,684	3,885	110,101	74,468	18,620
Loan from bank	82,445	-	82,445	-	-
Total long-term liabilities	<u>\$ 4,342,837</u>	<u>\$ 3,272,219</u>	<u>\$ 4,357,546</u>	<u>\$ 3,257,510</u>	<u>\$ 328,620</u>

H. Endowments and Restricted Net Assets

Restricted, expendable net assets are available for the following purposes:

	2011
Debt service:	
Funds held by Trustee	\$ 730,909
Capital acquisitions:	
Foundation	58,449
Specific operating activities:	
Federal grant funds	58,203
Colsher Trust	29,856
Foundation	4,648
Total expendable, restricted net assets	<u>\$ 882,065</u>

Unless the contributor provides specific instructions, state statute permits the Hospital Board to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Hospital Board is required to consider the Hospital's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

I. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Medicare

Effective December 1, 2005, the Hospital was granted status as a Critical Access Hospital (CAH) under the Medicare program. As a CAH, the Hospital receives cost reimbursement for the majority of Medicare patient care services. The Hospital is reimbursed for services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Prior to December 1, 2005, inpatient acute care services rendered to Medicare program beneficiaries were paid at prospectively determined rates per discharge. These rates varied according to a patient classification system that was based on clinical, diagnostic, and other factors. Certain outpatient service costs related to Medicare beneficiaries were paid based on a cost reimbursement methodology and prospectively determined rates. The Hospital was reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

2. Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Outpatient services are reimbursed based upon defined allowable rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 39 percent and 14 percent, respectively, of the Hospital's gross patient revenue for the year ended 2011, and 38 percent and 13 percent, respectively, of the Hospital's gross patient revenue for the year ended 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

J. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$2,154,070 for 2011.

K. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

Funded Depreciation – Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing, or making additions to the Hospital buildings as authorized by Indiana Code 16-22-3-13.

Internally designated:

Funded depreciation:

Cash and cash equivalents \$ 3,552,014

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

L. Bonds Paid by County

The Decatur County Memorial Hospital Foundation issued Revenue Refunding Bonds in the year 2011 in the amount of \$4,515,000 for a Hospital building addition. The Hospital is responsible for 50 percent of the bond and interest payments and 50 percent of the outstanding balance of the debt at December 31, 2011, in the amount of \$2,257,500 (See Note G).

The bond and interest payments for the other 50 percent of the debt are being paid by Decatur County by tax levy revenues. The amounts paid by Decatur County are not an obligation of the Hospital. In the year 2011, Decatur County paid \$262,500 in bond principal and \$114,199 of interest on their portion of the 2002 Revenue Bonds that were refunded in 2011. Decatur County's portion of the outstanding debt at December 31, 2011, was also \$2,257,500.

III. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical and Dental Benefits to Employees and Dependents

The Hospital has chosen to accept risk for expenses associated with employee health claims. Risk financing is accounted for in the Operating Fund where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$125,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

The Hospital estimates the amount of incurred but not reported employee health claims. The Hospital's estimate at the end of the year did not change from the amount estimated at the beginning of the year.

B. Contingent Liabilities

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Fair Value Measurements

The Hospital has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

Investments recorded in the Statement of Net Assets are categorized based on the inputs to valuation techniques as follows:

Level 1 – These are investments where values are based on unadjusted quoted prices for identical assets in an active market that the Hospital has the ability to access. Investments include private label collateralized mortgage obligations, mutual funds, and issues by U.S. government agencies and U.S. government sponsored enterprises.

Based upon the levels as defined the investments as of December 31, 2011, classified as follows:

Hospital Investment Type	December 31, 2011	Fair Value Measurements at Reporting Date Using:
		Quoted Prices in Active Markets For Identical (Level 1)
Collateralized mortgage obligations	\$ 149,895	\$ 149,895
U.S. agencies	1,164,377	1,164,377
Government sponsored enterprises	1,104,658	1,104,658
Mutual funds	4,644,375	4,644,375
Totals	<u>\$ 7,063,305</u>	<u>\$ 7,063,305</u>

Foundation Investment Type	December 31, 2011	Fair Value Measurements at Reporting Date Using:
		Quoted Prices in Active Markets For Identical (Level 1)
Mutual funds	<u>\$ 342,397</u>	<u>\$ 342,397</u>

DECATUR COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Revenue Pledged

Revenues Pledged in Connection with Component Unit Debt

The Hospital has pledged, as security for bonds issued by the Indiana Bond Bank, a portion of the Hospital's net revenues. The bonds, issued by the Hospital in 2011 in the amount of \$3,337,500, are payable through January 15, 2019. The Hospital has committed to appropriate each year, from the Hospital's revenue, amounts sufficient to cover the principal and interest requirements on the Hospital's debt. The Hospital has pledged, as the sole security for the bonds, the annual appropriations from the Hospital. Annual principal and interest payments are expected to equal less than 2 percent of the net revenue of the Hospital.

E. Pension Plan

Defined Contribution Pension Plan

Decatur County Memorial Hospital Retirement Plan

Plan Description

The Hospital has a defined contribution pension plan administered by American United Life Retirement Services authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established and can be amended by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

American United Life Retirement Services
7941 Castleway Drive
Indianapolis, IN 46250
Telephone Number: (800) 566-5952

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital is required to contribute at an actuarially determined rate. The current rate is 3 percent of annual covered payroll, plus the Hospital will match 1 percent contribution. Employer contributions to the plan were \$649,036 for 2011.

DECATUR COUNTY MEMORIAL HOSPITAL
COMBINING STATEMENT OF NET ASSETS
December 31, 2011

<u>Assets</u>	<u>Hospital</u>	<u>Hospital Foundation</u>	<u>Eliminations</u>	<u>Total Primary Government</u>
Current assets:				
Cash and cash equivalents	\$ 6,064,879	\$ 121,516	\$ -	\$ 6,186,395
Short-term investments	7,447,715	342,397	-	7,790,112
Patient accounts receivable, net of estimated uncollectibles of \$6,527,857	6,984,705	-	-	6,984,705
Supplies and other current assets	1,717,204	-	(18,651)	1,698,553
Noncurrent cash and investments:				
Internally designated for capital improvements	3,552,014	-	-	3,552,014
Held by Trustee for debt service	730,909	-	-	730,909
Restricted by bond agreements, contributors and grantors	88,059	63,097	-	151,156
Capital assets:				
Capital assets not being depreciated	1,900,119	-	-	1,900,119
Depreciable capital assets, net of accumulated depreciation	22,924,733	-	-	22,924,733
Other assets	141,941	-	-	141,941
Total assets	<u>\$ 51,552,278</u>	<u>\$ 527,010</u>	<u>\$ (18,651)</u>	<u>\$ 52,060,637</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Current maturities of long-term debt	\$ 328,620	\$ -	\$ -	\$ 328,620
Accounts payable and accrued expenses	2,924,443	-	-	2,924,443
Estimated third-party settlements	590,106	-	-	590,106
Other current liabilities	-	31,066	(18,651)	12,415
Long-term debt, net of current maturities	2,928,890	-	-	2,928,890
Total liabilities	<u>6,772,059</u>	<u>31,066</u>	<u>(18,651)</u>	<u>6,784,474</u>
Net assets:				
Invested in capital assets, net of related debt	21,692,386	-	-	21,692,386
Restricted				
For debt service	730,909	-	-	730,909
Expendable for capital acquisitions	-	58,449	-	58,449
Expendable for specific operating activities	88,059	4,648	-	92,707
Unrestricted	22,268,865	432,847	-	22,701,712
Total net assets	<u>44,780,219</u>	<u>495,944</u>	<u>-</u>	<u>45,276,163</u>
Total liabilities and net assets	<u>\$ 51,552,278</u>	<u>\$ 527,010</u>	<u>\$ (18,651)</u>	<u>\$ 52,060,637</u>

DECATUR COUNTY MEMORIAL HOSPITAL
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year Ended December 31, 2011

	Hospital	Hospital Foundation	Total Primary Government
Operating revenues:			
Net patient service revenue (net of provision for bad debt)	\$ 42,028,541	\$ -	\$ 42,028,541
Other	1,230,584	-	1,230,584
Total operating revenues	43,259,125	-	43,259,125
Operating expenses:			
Salaries and wages	26,309,486	-	26,309,486
Medical supplies and drugs	3,979,033	-	3,979,033
Insurance	324,415	-	324,415
Other supplies	1,101,819	-	1,101,819
Depreciation and amortization	2,404,038	-	2,404,038
Other expenses	7,567,582	-	7,567,582
Total operating expenses	41,686,373	-	41,686,373
Operating income	1,572,752	-	1,572,752
Nonoperating revenues (expenses):			
Investment income	287,955	2,497	290,452
Investment expense	(178,354)	-	(178,354)
Noncapital grants and contributions	123,722	137,655	261,377
Other	263,021	(136,412)	126,609
Total nonoperating revenues (expenses)	496,344	3,740	500,084
Excess of revenues over expenses before capital grants and contributions	2,069,096	3,740	2,072,836
Capital grants and contributions	33,513	245	33,758
Increase in net assets	2,102,609	3,985	2,106,594
Net assets beginning of the year	42,677,610	491,959	43,169,569
Net assets end of the year	\$ 44,780,219	\$ 495,944	\$ 45,276,163

DECATUR COUNTY MEMORIAL HOSPITAL
COMBINING STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
Year Ended December 31, 2011

	Hospital	Hospital Foundation	Eliminations	Total Primary Government
Cash flows from operating activities:				
Receipts from and on behalf of patients	\$ 41,102,397	\$ -	\$ -	\$ 41,102,397
Payments to suppliers and contractors	(13,999,009)	19,947	-	(13,979,062)
Payments to employees	(26,309,486)	-	-	(26,309,486)
Other receipts and payments, net	1,289,040	-	-	1,289,040
Net cash provided by operating activities	2,082,942	19,947	-	2,102,889
Cash flows from noncapital financing activities:				
Noncapital grants and contributions	123,722	3,885	-	\$ 127,607
Other	263,023	-	-	263,023
Net cash provided by noncapital financing activities	386,745	3,885	-	\$ 390,630
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	\$ (2,365,277)	\$ -	\$ -	\$ (2,365,277)
Capital grants and contributions	33,513	-	-	33,513
Principal paid on long-term debt	(1,085,329)	-	-	(1,085,329)
Interest paid on long-term debt	(178,354)	-	-	(178,354)
Net cash used by capital and related financing activities	(3,595,447)	-	-	(3,595,447)
Cash flows from investing activities:				
Interest and dividends on investments	287,955	-	-	287,955
Purchase of investments	746,554	(10,832)	-	735,722
Net cash provided by investing activities	1,034,509	(10,832)	-	1,023,677
Net decrease in cash and cash equivalents	(91,251)	13,000	-	(78,251)
Cash and cash equivalents at beginning of year	10,527,112	171,613	-	10,698,725
Cash and cash equivalents at end of year	<u>\$ 10,435,861</u>	<u>\$ 184,613</u>	<u>\$ -</u>	<u>\$ 10,620,474</u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:				
Cash and cash equivalents in current assets	\$ 6,064,879	\$ 121,516	\$ -	\$ 6,186,395
Restricted cash and cash equivalents	4,370,982	63,097	-	4,434,079
Total cash and cash equivalents	<u>\$ 10,435,861</u>	<u>\$ 184,613</u>	<u>\$ -</u>	<u>\$ 10,620,474</u>
Reconciliation of operating loss to net cash provided by operating activities:				
Operating gain	\$ 1,572,752	\$ -	\$ -	\$ 1,572,752
Adjustments to reconcile operating loss to net cash flows provided in operating activities:				
Depreciation	2,404,038	-	-	2,404,038
Provision for bad debts	6,009,093	-	-	6,009,093
Increase in current assets:				
Patient accounts receivable	(6,935,237)	-	-	(6,935,237)
Supplies and other current assets	(637,585)	-	7,532	(630,053)
Other assets	28,456	-	-	28,456
Increase (decrease) in current liabilities:				
Accounts payable and accrued expenses	(300,718)	-	-	(300,718)
Other current liabilities	(87,857)	19,947	(7,532)	(75,442)
Estimated third-party payor settlements	30,000	-	-	30,000
Net cash provided in operating activities	<u>\$ 2,082,942</u>	<u>\$ 19,947</u>	<u>\$ -</u>	<u>\$ 2,102,889</u>

The Hospital held investments at December 31, 2011, with a fair value of \$7,790,112. During 2011, the net increase in the fair value of these investments was \$292,168.

DECATUR COUNTY MEMORIAL HOSPITAL
AUDIT RESULT AND COMMENT

INVESTMENTS

The Hospital purchased investments in collateralized mortgage obligation bonds through a brokerage firm. The purchase cost of these investments at December 31, 2011, was \$150,696 with a market value of \$149,895. Information presented for audit showed these investments were "private label" collateralized mortgage obligation bonds and were fully collateralized by first mortgages on residential real estate. A brochure presented by the Hospital for audit provided the following additional information:

"Private Labels — Private Labels are issuers of mortgage-backed securities other than a U.S. Government agency or government-sponsored enterprise, such as an investment bank. These issuers are not backed by the government in any way. These issues, even those comprised with collateral guaranteed by Ginnie Mae, Fannie Mae, or Freddie Mac, carry no explicit government guarantee; they are the sole obligation of their issuer."

Indiana Code 16-22-3-20(b) states in part the following:

"The board may invest money in the hospital funds within the county or the state as the board determines. The money may be invested in the following:

- (1) Any account paying interest and subject to withdrawal by negotiable orders of withdrawal, unlimited as to amount or number (NOW accounts).
- (2) Passbook savings accounts.
- (3) Certificates of deposit.
- (4) Money market deposit accounts.
- (5) Any interest bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

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- (6) Repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective.
- (7) Mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.
- (8) Securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.
- (9) Pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana. . . ."

On April 26, 2011, we met with Hospital officials to discuss a similar comment included in prior Report B38745. Hospital officials stated they plan to liquidate the above investments when market conditions become favorable. Investments on hand at December 31, 2011, were purchased prior to April 26, 2011.

Investments should only be made in accordance with statute. Expenses related to any unauthorized investments may be the personal obligation of the responsible official or employee.

Losses related to investments and investment procedures which are not authorized by statute may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

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EXIT CONFERENCE

The contents of this report were discussed on April 23, 2012, with Linda V. Simmons, President/Chief Financial Officer/Treasurer; Michael R. Ruckel, Vice President of Finance; Toni Collins, Chairman of the Hospital Board; Reuben Kissel, Board member; and Timothy W. Nobbe, Board member. The officials concurred with our audit finding.